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Division: International  
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**CURRENT SUPPORT BRIEF**

Project No. 47.5294

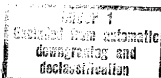
**THE DEEPENING BANANA CRISIS IN ECUADOR**

30 November 1965

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**CONFIDENTIAL**The Deepening Banana Crisis in Ecuador

Recent developments in Ecuador illustrate the recurring plight of Latin American nations that are heavily dependent on a narrow range of commodity exports to earn foreign exchange. In the first 8 months of 1965 Ecuador's receipts from banana exports, which account for nearly 60 percent of the country's foreign exchange earnings, totalled US \$47 million, a drop of US \$10 million or 18 percent from earnings in the corresponding period of 1964. The sharp drop in export earnings reflects the resurgence of banana production from formerly disease-infested plantations in Central America and storm-damaged plantations on Taiwan, areas that possess competitive advantages over Ecuador for supplying markets in the US, Western Europe, and Japan. To counter the drop in banana export earnings, Ecuador's government has attempted to stabilize banana export prices, to reduce export costs, and to develop new export markets through barter trade with Communist countries. In the face of estimates that foresee world consumption lagging behind rising world production, however, the prospects for mitigating declining export earnings are not bright. As a result of the drop in export receipts during 1965, Ecuador already is reviewing its projection of foreign exchange earnings from banana exports as they constitute a major source of financing for the country's National Development Plan (1964-73).

1. Marked Decline in Banana Exports

The sharp drop in Ecuador's export earnings from bananas stems from the highly competitive nature of the international banana market. For several years this market has been characterized by the continuous

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deterioration of banana prices as a result of increased supplies from exporting nations. Through 1964 Ecuador did not feel the impact of declining prices on foreign exchange earnings because of offsetting increases in volume as shown in the accompanying data. Much of the success achieved in increasing the volume of exports through 1964 was the result of temporary disruptions in the established flow of banana exports from other supplier countries to existing markets. Japan, for example, turned to Ecuador for banana imports following frost damage to plantations on Taiwan in 1962-63. Japanese imports of bananas rose from a negligible level in 1960-61, to about 16 percent of Ecuador's total banana exports in 1963.

Ecuador Banana Exports: Value, Price, and Volume Index

1958 = 100

	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965*</u>
Total value	122	111	121	117	116	102
Price	94	91	89	72	70	70
Volume	130	122	137	162	165	139

\* January-August 1965, using comparable period in 1958 as base of 100.

The recovery of production on Taiwan, however, now threatens to displace Ecuador's banana exports to Japan. It is estimated that exports of bananas to Japan may reach only 835,000 stems in 1965 as compared with a peak of 7.4 million stems in 1963.

Similarly, the recovery of production in Central America, following extensive replanting of diseased trees, and the revival of storm-damaged production in Colombia are reducing Ecuador's share of the banana market in the US. The increasing availability of supplies from the Caribbean

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area weakens Ecuador's competitive position inasmuch as Caribbean sources are 3 to 4 days closer to US and Western European markets and have correspondingly lower transportation costs. For this reason, United Fruit, which accounted for about 15 percent of Ecuador's banana exports in 1964, <sup>virtually</sup> withdrew from the country's banana market at the beginning of 1965, citing its heavy investments in Central America and Colombia, and the advantage of their proximity to the US. Trade sources also observe that in Western Europe bananas are still considered a luxury product, and despite the acknowledged superiority of Ecuador's product, price is more important than quality.

## 2. Impact of Falling Exports

The decline in foreign exchange earnings from banana exports has been offset in part by the favorable performance of the country's other main exports, coffee and cacao. Preliminary data reveal that in the nine-month period January - September 1965, the total value of Ecuador's exports was US \$98.6 million, approximately the same level of export earnings in the corresponding period of 1964.

Despite the offsetting influences of other exports, Ecuador has experienced an alarming decline in its international monetary reserves. After reaching a peak of US \$49.8 million in October 1964, the nation's international reserves dropped steadily through June 1965 at which time they totalled US \$31.4 million, a decline of nearly 40 percent. This adverse movement of Ecuador's international monetary reserves is traceable to a

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sharp rise in import expenditures concurrent with the stagnation in export receipts.

Accompanying the adverse movement of international monetary reserves, fragmentary reports on the domestic economy indicate that through the first half of the year unemployment was on the rise among banana plantation laborers, packing-shed workers, and stevedores as several large growers and exporters ceased operations. Guayaquil, the country's main commercial center and leading banana exporting port, reported truck sales to have fallen, repossessions on the rise, and sales in transportation-related industries -- tires, gasoline -- also being affected.

T-174  
*General Guaymas*  
*30 March 1961*  
*AED CAP/Huber*  
*Cumby C. M.*

### 3. Government Reaction to the Banana Crisis

The government has attempted to counter the sharp drop in banana export earnings in several ways. In the main, the government's actions have been designed to stabilize banana export prices, to reduce export costs, and to develop new export markets. To this end, the Military Junta in a series of decrees issued since January has established minimum export prices for bananas, ordered all banana growers to join cooperatives, and directed exporters to buy directly from growers. The government has also negotiated freight rate reductions with Flota Gran Colombiana, a shipping firm jointly owned by semi-official entities of the Ecuadorian and Colombian Governments, following a voluntary reduction by the Grace Line.

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As an outgrowth of a program to promote exports in general, and exports of bananas in particular, the government authorized negotiations for barter

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trade with Yugoslavia, Communist China, the USSR and Eastern European countries shortly after the first of the year. Thus far, the only results of the trade mission named to negotiate these barter agreements have been a

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proposed transaction with Czechoslovakia for two, 150-ton shipments of

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bananas, and a reported US \$4 million trade agreement with East Germany

involving, among other products, an unspecified quantity of bananas.

The

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government's efforts to promote banana exports to Western Europe have met

only with limited success in France and Italy. An additional quota of

10,000 tons was granted by Italy as part of an agreement that calls for

Ecuador to purchase Italian-built refrigerator ships. The ship order is

the result of an agreement signed by the Ecuadorian Government and an Israeli

firm, Somerfin Maritime Services Ltd., which provides for the formation of a

jointly owned and operated shipping line to transport Ecuadorian bananas

to Italy and European countries, and to return with Israeli cargoes. Under

terms of the agreement four ships are to be constructed, but in the interim,

the joint company is making deliveries in chartered ships.

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Also under consideration by the government is modification of the 21 percent banana export tax. In an effort to further reduce costs in response

to the shift toward boxed banana exports, the government authorized banana

exporters to manufacture their own boxes despite the protests of existing

box manufacturers.

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#### 4. Outlook

The immediate prospects for banana exports do not merit undue optimism.

Although exporters reported some rise in shipments to Japan, the US, and

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Western Europe in September and October, this is believed to be a temporary phenomenon largely due to recent storm damage of plantations in Colombia and Taiwan. Trade sources believe that the recent upturn in export volume will continue until the normal seasonal decline in November, but that it is unlikely that the volume involved will compensate for the decline in export earnings during the first eight months of the year.

For the long-run, conditions in the international banana market are clouded but tentative projections indicate that commercial production in exporting countries will grow faster than consumption in importing countries. Under these conditions, Ecuador is facing a period of readjustment involving reductions in banana acreage and concentration of production on the most efficient lands in order to reduce costs. (Government officials optimistically believe that the industry has about four years to improve its competitive position, this being the estimated time before increasing production in Central America and Colombia make further inroads into Ecuador's markets. The potential of new markets in Communist countries holds some promise but it is unlikely that the quantities imported by these countries will be sufficient to offset the effect of any new inroads into existing markets.

In light of the developments in 1965, Ecuador's National Planning Board is already re-examining its estimates of foreign exchange earnings from banana exports as the projected earnings constitute a major source of financing for the country's National Development Plan (1964-73). Whereas the Board had forecast banana export earnings to increase at an annual

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average rate of about 3.7 percent during this 10-year period, an independent study estimates that at best earnings will increase at about 2.4 percent annually until 1968 and thereafter by about 1.7 percent through 1974. A-363 LCU

The study concludes that the cumulative shortfall of banana export earnings for the period 1964-73 could be in the range of US \$160 million to US \$330 million. A 363-LCU

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Coordinator: [REDACTED] OCI  
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SUBJECT

(47.5294) CB 65-76

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## SECURITY REVIEW

20 Dec 65/ J

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